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STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

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October 3, 2006

TO: Transit Agencies and Certified Public Accountants Performing Public Transportation Audits

SUBJECT: FY 2006 Audit Information for September 30th Year Ends

The Audit Guide for Transportation Authorities and Agencies in Michigan (Audit Guide) dated April 1991, governs the audit of Local Bus Operating Assistance funds (the State Formula Program) and Section 5311 Operating Assistance funds (the Federal Formula Program). This letter is updated yearly to supplement the Audit Guide with annual percentages, clarifications, and other necessary information.

I. Information Necessary to Calculate Local Bus Operating Assistance

A. Reimbursement Amount:

Local Bus Operating Assistance is a fixed dollar amount that reimburses a transit agency's eligible operating expenses based on a percentage of statewide eligible expenses. The reimbursement percentage is initially calculated based on budgeted expenses. Then the reimbursement percentage is recalculated based on reconciled eligible operating expenses, and then recalculated a second time based on audited eligible operating expenses.

Currently, the reimbursement percentage is based on budgeted expenses. Nonurbanized areas and urbanized areas under 100,000 population were reimbursed at 39.2545 percent. Urbanized areas over 100,000 population were reimbursed at 33.1414 percent.

B. Statutory Cap:

Nonurbanized areas and urbanized areas under 100,000 population can receive up to 60 percent of eligible operating expenses. Urbanized areas over 100,000 population can receive up to 50 percent of eligible operating expenses.

C. Mandatory Floor:

An agency must receive, at a minimum, the amount received for eligible operating expenses in FY 1997, contingent upon the local share requirements set forth in Act 51, as amended.

II. Information Necessary to Report and Calculate Federal Funding

A. Reimbursement for Section 5311 is 17 percent.

B. FTA FY 2006 Apportionments and Allocations can be located at:
<http://www.fta.dot.gov/documents/06-961.pdf>

Table 4: Section 5307 Urbanized Apportionments

Table 11: Section 5309 Bus and Bus Facility Allocations

Table 12: Section 5309 New Starts Program Allocations

Table 16: Section 5316 Job Access and Reverse Commute apportionments to the States

Table 17: Section 5317 New Freedom apportionments to the States for small urbanized areas and rural areas

- C. The Catalog of Federal Domestic Assistance (CFDA) website is www.cfda.gov. Common Transit CFDA numbers are:

<u>Federal Programs</u>	<u>Section</u>	<u>CFDA #</u>
Federal Transit Metropolitan Planning Grants	5303	20.505
State Planning and Research	5304	20.515
Federal Transit Formula Grants (Urban)	5307	20.507
Federal Transit Capital Investment Grants	5309	20.500
Capital Assistance Program for Elderly Persons and Persons With Disabilities	5310	20.513
Formula Grants For Other Than Urbanized Areas (Nonurban)	5311	20.509
Job Access/Reverse Commute	5316	20.516
New Freedom Program	5317	20.521

III. Necessary Columns on the "Schedule of Expenses by Contract and General Operations" (page 42 in the 1991 Audit Guide)

- A. Expenses associated with operating contracts (e.g., Specialized Services, Section 5316 (JARC), and Section 5307 capital contracts that fund operating expenses) must be shown separately in the audit by contract and by year. For example, Section 5307 capital contracts are executed yearly and usually cover a three year period. Therefore, each contract has to be identified separately by year:

	MI-90-x381 02-0049-z5 FY 04 <u>\$5307</u>	MI-90-x399 02-0049-z10 FY 05 <u>\$5307</u>	MI-90-x481 02-0049-z27 FY 06 <u>\$5307</u>	MI-90-x016 02-0049-z20 FY 06 <u>JARC</u>	• • •	<u>Total</u>
Expenses:						
Labor		\$77,938	\$29,400	\$23,259		\$Sum
Fringes		47,752	14,036	15,450		\$Sum
Tires	7,050	3,666				\$Sum
•						
•						
•						
Depreciation						
Total Oper. Exp.	\$ Sum	\$ Sum	\$ Sum	\$ Sum		\$Sum

Do not lump similar contracts together:

	<u>\$5307 Contracts</u>	<u>JARC Contract</u>	• • •	<u>Total</u>
Expenses:				
Labor	\$107,338	\$23,259		\$Sum
Fringes	61,788	15,450		\$Sum
Tires	10,716			\$Sum
•				
•				
•				
Depreciation				
Total Oper. Exp.	\$ Sum	\$ Sum		\$Sum

Please Note: The capitalization policy for purchases paid for with capital grant funds should be stated in the Notes to the Financial Statements. For example:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES:

Capital assets are defined by the transit authority as assets with an initial, individual cost of more than \$5,000, except for assets purchased with Federal and/or State grants which are capitalized regardless of the amount, and an estimated useful life in excess of one year. Such assets are recorded

Or

Capital assets are defined by the transit authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded Assets with an initial, individual cost of less than \$5,000 and/or an estimated useful life less than one year and purchased with Federal and/or State grants are expensed and subtracted out as ineligible on the "Maximum Reimbursement Computations of Local Bus Operating Assistance" (page 46 in the 1991 Audit Guide).

B. Expenses associated with the State of Michigan's Specialized Services Program must be reported on this schedule if the Formula agency:

1. Is the direct recipient of both Specialized Services funds and Local Bus Operating funds, and
2. Actually provides the service or expenses pass-through funds on its books.

If the Formula agency provides the service, then expenses must be allocated based on a BPT approved cost allocation plan. A BPT approved cost allocation plan is required even if the transit agency only acts in a pass-through capacity. This pass-through cost allocation plan must state: (1) whether or not the pass-through funds are expensed on the transit agency's books, and (2) that none of the program funds are used to pay for the administrative costs of the organization acting as a pass-through agency.

C. When a Formula recipient is hired by a Specialized Services grantee to provide service, a cost allocation plan is not required. The Formula recipient only has to subtract out the revenue received from the Specialized Service recipient as ineligible on the "Maximum Reimbursement Computations of Local Bus Operating Assistance" (page 46 in the 1991 Audit Guide).

D. Job Access/Reverse Commute

Federal Section 5316 funds reimburse 50% of JARC expenses up to the contract maximum. BPT may or may not match the Federal JARC funds. If BPT:

1. Matches the Federal JARC money, then the expenses must be:
 - i. Allocated in accordance with a BPT approved cost allocation plan, and
 - ii. Reported on this schedule (that being, the "Schedule of Expenses by Contract and General Operations").
 - iii. Both the Federal and State JARC funds received are subtracted out as ineligible on the "Maximum Reimbursement Computations of Local Bus Operating Assistance" (page 46 in the 1991 Audit Guide). If the JARC service is open door, then JARC expenses not reimbursed under the JARC contract are eligible for Local Bus Operating reimbursement.
2. Does not match the Federal JARC money that a transit agency receives, then:
 - i. No BPT approved cost allocation plan is required, and
 - ii. JARC expenses can be included in the General Operations expenses reported on this schedule.

- iii. The Federal JARC funds received are subtracted out as ineligible on the "Maximum Reimbursement Computations of Local Bus Operating Assistance" (page 46 in the 1991 Audit Guide). If the JARC service is open door, then JARC expenses not reimbursed under the JARC contract are eligible for Local Bus Operating reimbursement.

IV. Ineligible Expenses Reported on the "Maximum Reimbursement Computations of Local Bus Operating Assistance" (page 46 in the 1991 Audit Guide)

Ineligible expenses are explained in the Local Public Transit Revenue and Expense Manual dated October 1, 2005 through September 30, 2006. This manual is located at: <http://www.michigan.gov/mdotptd>. Find the "Resources" box and click on "Audit/Accounting Information." Specifically note the following ineligible:

- A. Money received from a Specialized Services Agency that originated from BPT. Refer back to Section III. C. of this letter for further explanation.
- B. Federal Section 5316 (JARC) money received when BPT did not match the Federal funds. Refer back to Section III. D. of this letter for further explanation.
- C. Lobbying and Association Dues
 1. All expenses associated with lobbying are not eligible and should be subtracted out under 58005 Ineligible Lobbying Expense.
 2. If a transportation organization incurs lobbying expenses, a percentage of dues paid to that organization is not eligible and should be subtracted out under 55009 Ineligible Percent of Association Dues. The percentage of association dues ineligible for reimbursement under the Local Bus Operating Assistance program and the Section 5311 Operating Assistance program are:

APTA:	14.0 percent	MassTrans:	12.65 percent
CTAA:	0.0 percent	MPTA:	6.8 percent

V. Additional Requirements and Information

- A. For transit agencies that exceed \$500,000 or more in Federal funds, a copy of its annual audit must be sent to both FTA and the Federal Audit Clearinghouse.

Those addresses are:

Derek Davis, Trans. Program Specialist Federal Transit Administration 200 W. Adams Street, Suite 200 Chicago, Illinois 60606	Federal Audit Clearinghouse* 1201 East 10 th Street Jeffersonville, IN 47132 *No contact person necessary
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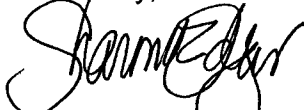
- B. Clearly identify all grants in the financial statements and supplemental schedules (e.g., revenue schedules, the Schedule of Expenses by Contract and General Operations (page 42 in the 1991 Audit Guide), and Schedule of Findings and Questioned Cost/Ineligible Expenses (page 55 in the 1991 Audit Guide). **All grants should have the contract and authorization number, as well as a descriptive title.** If a grant amount is included in total expenses, then it must be subtracted out as ineligible on the "Maximum Reimbursement Computations of Local Bus Operating Assistance" (page 46 in the 1991 Audit Guide). Audits that fail to identify all grants on all of the applicable schedules will not be accepted.
- C. The expenditure information on the "Schedule of Financial Assistance – Federal and State" (page 50 in the 1991 Audit Guide) is used in MDOT's review of operating and capital contracts. Both Federal and State funding should be included. **This information should be consistent with the fixed assets and the revenues and expenses in the financial statements.**
- D. BPT reviews and approves all cost allocation plan methodologies. To verify that the transit agency has an approved cost allocation plan, visit our website at: <http://www.michigan.gov/mdotptd>. In the "Resources" box, click on "Audit/Accounting Information." Then click on "cost allocation listing." This listing is updated periodically. It is possible that a transit agency's cost allocation plan was approved since the last listing was posted. To determine if a plan was approved since the last update, or to get a copy of the approved methodology, contact your project manager.

The Local Audit and Finance Division, Bureau of Local Government Services of the Michigan Department of Treasury (Treasury) in conjunction with the Bureau of Passenger Transportation (BPT) of the Michigan Department of Transportation has revised the Audit Guide and plans on issuing it as an exposure draft. You will be notified when the exposure draft is issued if you are on Treasury's listserv. Instructions to get on Treasury's listserv are at: http://www.mi.gov/prINTERfriendly/0,1687,7-121-1751_2194_2196_34547-108898--,00.html.

Remember that until further notice, the 1991 Audit Guide for Transportation Authorities and Agencies in Michigan and this letter governs the annual audit process.

Please contact Trish D'Itri, Auditing Specialist, at (517) 335-2535 or by email at ditrit@michigan.gov with questions or if you need website information mailed to you. Trish can also be contacted if you do not want to get on Treasury's listserv, but are still interested in reviewing and commenting on the upcoming exposure draft.

Sincerely,



Sharon L. Edgar, Administrator
Bureau of Passenger Transportation